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Recovery reforms for Sweden

Background

According to the European Council's decision at the July summit, each Member State must submit its recovery plan in order to access funding from the EU's Next Generation EU Recovery Fund. The plan should be consistent with the country-specific recommendations of the European Semester and should contribute to green and digital transformations. The plan should also "promote growth and employment".

The national recovery plans shall be approved by the Council, following analysis by the Commission as to whether the relevant milestones and objectives have been met satisfactorily. As part of this work, the Economic and Financial Committee will also be consulted. However, there is no further concrete information about the goals or how these will be weighted in the decision.

The Confederation of Swedish Enterprise has chosen to divide its proposals for what should be included in the Swedish Recovery Fund into three parts. The first examines the country-specific recommendations, to see which areas are most suitable for using EU funds from the Recovery Fund. The second highlights those proposals that we previously presented in our plan to 'Restart Sweden that can be linked to the country-specific recommendations. The third is linked to the guidelines set out by the EU Council in July of this year.

The Council placed its emphasis and overall focus on efforts connected with the recovery. This is fully in line with the input made by the Confederation of Swedish Enterprise in spring 2020, where we demanded, at an early stage, that the EU recovery must be both digital and green.

The Confederation of Swedish Enterprise also wants to emphasise the Commission's conclusion that "private investment must be promoted, and that this presupposes reforms". Europe and Sweden are entering the recovery phase with unemployment higher and company balance sheets weaker. At the same time, there is an even faster structural change, as the crisis impacts value chains and household consumption patterns.

Clear criteria and follow-up very important

Concerning the use of finances from the Fund, the Confederation of Swedish Enterprise emphasises that the Swedish government must clearly push for:

- The focus to be placed on Europe's long-term competitiveness and sustainable growth.
- The funds to be used for long-term investments rather than short-term consumption.
- The funds are not to be used for distortive subsidies or to support public activities.
- The funds should not be used to distort competition between private companies.
- The funds should not be used to benefit a country's own companies.
- The regulations do not increase companies' existing bureaucracy.

To ensure that the Fund genuinely contributes to the restructuring and long-term strengthening of competitiveness, it is of the utmost importance that the European Commission and the Council define clear criteria for the allocation of resources. Measurable

goals for each criterion need to be formulated and, via a publicly available "scoreboard", these need to be continuously evaluated against various measures. These could include:

- Ensuring that resources are used efficiently
- Creating conditions for the development of best practice,
- Accelerating the green and digital transitions
- Reducing the risk of suboptimal national measures
- Strengthening European competitiveness
- Creating a better basis for future policy development within both the EU and the Member States.

The Swedish country-specific recommendations

The Council's recommendations to Sweden in the Country Report 2020 (February 2020) and in the recommendations 2020 (May 2020) mainly highlight the following structural problem areas / need for action:

- The lack of function and mobility within housing market
- The high level of debt in the household sector.
- Improving integration within the labour market.
- Addressing money laundering problems in the banking sector.
- Tackling the large shortage of labour, despite high levels of unemployment.
- Supporting education and aiding skills development.
- Increasing and promoting innovation.
- Addressing the large differences in educational results between different social groups. Although results have improved overall, the differences in educational level remain and are growing. The differences in results between domestically born students and students from an immigrant background have increased significantly.
- Reversing stalled productivity. Despite the favourable business climate, productivity growth has stalled recently and is expected to remain low in the short term. Successful long-term productivity growth will emerge as the result of a successful transformation of the production base and innovation in the field of information and communication services, as well as in strategic value chains.

Several of the country-specific recommendations only have a relatively weak direct link to green conversion and digitalisation and accordingly for the criteria for funding from the EU Recovery Fund. This applies to the recommendations on household debt, the housing market, integration in the labour market and money laundering in the banking sector. The issues of integration, the education system and the functioning of the housing market are particularly important for long-term growth; however, these must be addressed mainly outside the auspices of the EU recovery programme.

To summarise its restart recommendations following the Covid-19 crisis, the Commission states that Sweden should advance mature public investment projects and promote private investment to support the economic recovery. Such steps will require reforms.

The EU further emphasises that Sweden should focus its investments on the green and digital transition, particularly the clean and efficient production and use of energy, investments in high-tech and innovative industries, 5G networks and sustainable transport. Maintaining a high proportion of public expenditure within research is a necessary condition for improving productivity.

Restart Sweden

The Confederation of Swedish Enterprise's June programme "[Restart Sweden](#)" (Mobilising for jobs) and the report "[After the pandemic - how we secure future prosperity and sustainable growth](#)" contained a number of proposals for the required reforms.

There is a strong link to the Recovery Fund for the recommendations in the country-specific programme in terms of education, labour shortages, the need for increased innovation and reforms for a successful structural change and new innovations in the field of information and communication services.

The Confederation of Swedish Enterprise wants to emphasise – in line with the Commission – that investments will be crucial to achieve the stated goals of change, digitalisation, jobs and growth. The sharp decline in investment - particularly in business investment - that took place during the Covid-19 crisis is therefore a deeply worrying trend.

It is within companies that the foundation will be laid for the successful transition and new jobs. Public investment, and well-designed regulations that promote innovation, are prerequisites for creating basic advantageous conditions for entrepreneurship, but a genuinely successful transition will be based on private entrepreneurship. Only through investments in business can the goals of green transition digitalisation and competitiveness be achieved. The recovery plan must focus on measures to increase opportunities for entrepreneurship, and to help companies in making investments and creating opportunities for employment.

Measures in accordance with EU criteria

Below are a number of measures and reforms that the Confederation of Swedish Enterprise believes should be included in the Recovery Plan (i.e. where EU funds can be obtained in accordance with the criteria). Initially, more general measures to increase companies' opportunities to invest are summarised. Then, more specific proposals are presented, which are more directly focused on green transition and digitisation respectively.

Overall measures to increase investment and restructuring

The ongoing crisis has meant that the resources available to companies for investment and job creation have fallen sharply, due to falling sales and growing losses. The recovery plan therefore needs to include measures that will create opportunities for companies to invest. This is a prerequisite for a successful green transition and digitisation.

These include:

- Providing opportunities to offset this year's losses against previous gains.
- Increasing depreciation opportunities for investments.
- Trebling the allocation of funding for industrial transition.
- Facilitating the supply of capital Introducing a restart loan via the corporate emergency, but with a higher government guarantee.

Research and Development

Research and development is an unconditional prerequisite for investment and competitiveness. Of course, it is also a prerequisite for the green transition and increased digitalisation. Business R&D investment has fallen sharply in the wake of the Coronavirus crisis; increasing this will require:

- Enhanced R&D deduction.

- An adjustment to the expert tax, in order that foreign expertise can be attracted to Sweden. The competence requirements should be reviewed, the limits lowered, and the time period extended.
- Increased government co-financing for new R&D collaboration programmes.

Competent workforce

A fundamental problem for many companies, even those in new innovative and high-tech sectors, is the lack of a skilled workforce. This risks severely limiting the reskilling potential of staff. At the same time, unemployment remains high, and the overall number of hours worked has fallen sharply. Important measures for ensuring the supply of skills will include:

- Ensuring access to, and availability of, demand-driven vocational training for adults. Also ensure there is a national long-term strategy to develop future STEM competence (Science, Technology, Engineering, Mathematics).
- Shortening the path to jobs with validation and accurate supplementary training initiatives.
- Increasing access and accessibility to distance education and distance learning via digital learning centres. In addition, ensuring in-demand specialist training in digital competence, intellectual property law and cybersecurity.
- Reinforce lifelong learning through relevant financial incentives for companies.
- Ensure that there is a well-functioning system for recruiting international skills and stop skills being exported.
- Focusing labour market training on those areas where companies already have demand adjusting finances accordingly. The polytechnic should become a model for labour market education, with its close collaboration with working life and an approach that is based on need.

Public investment

The Confederation of Swedish Enterprise shares the view that extensive public investments are required. These investments must focus on areas that will increase the productivity of the economy and the competitiveness of business, and facilitate the ongoing rapid green and digital structural transformation in the economy (see below).

Green transition - infrastructure and electricity supply

Socioeconomically profitable infrastructure investments in roads and railways should be brought forward. In particular, the electrification of the road network should be accelerated. The Confederation of Swedish Enterprise proposes that investment in the industrial transition should be trebled, in order to further stimulate industry's conversion to fossil-free production. Investment in industry is a State Aid that supports the conversion to zero emissions through technological advances. By trebling the grant to a total of SEK 1.8 billion a year, it will stimulate sustainable technology development at the same time as new jobs are being created.

Furthermore, it is now essential that we lay the foundations for Sweden's continuing journey to electrification. This transition will mean a sharp increase in electricity use and an increased amount of weather-dependent production as part of our electricity mix. Today's power networks already face challenges to provide sufficient capacity to meet demand in extreme situations, a situation where we have seen examples during the summer in southern Sweden. If the change is to be truly green, it will be essential to ensure access to a supply of fossil-free electricity throughout Sweden. In order for the green transition to become a reality,

it will require measures that ensure security of energy delivery now and in the future. The electricity grid has a fundamental role in making the recovery successful, and therefore efforts must also be made to finance the smart and sustainable development of our grid. In addition, there must be efforts made to secure EU funding for investment in smart future solutions.

The shift from highly stable and predictable base production to more flexible / weather-dependent production will mean that the fundamental functions that maintain a stable power system - and thus delivery systems and system services - will no longer be provided by the base production, as was previously the case. In future, the system operator will need to ensure that there are other providers of these functions / services. Examples of this type of service are frequency control, voltage control, different types of reserves etc. Secure delivery security is based on there being sufficient capacity, not only within the various network areas but also between, for example, price areas.

Digitisation - digital infrastructure and easier procurement of digital systems

To restart the economy following the pandemic, a visionary policy that strengthens the increasing use of data and AI will be central. Sweden must prioritise increased digitisation and further expand its digital infrastructure. Sweden needs to:

- Expand its fast broadband throughout the country
- Strengthen its 5G-capacity and development
- Demand, procure and use more digital technology
- Create open platforms for voluntary data sharing
- Stimulate and strengthen the digitalisation of companies through innovation hubs and AI projects
- Introduce experimental clauses and regulatory 'sandboxes', in order to promote innovation.

Funding for broadband expansion should be increased at least fivefold over the next three years.

Sweden needs to create a national IT infrastructure for the public sector. This will ensure that the benefits of digitalisation are seen in these sectors of society, as well as increasing overall efficiency of service provision, thus reducing the pressure on public finances. There should be a special State subsidy available, to be paid to the municipalities and regions that make investments in digital solutions based on the State's national guidelines. Furthermore, public procurement of digital systems and new digital solutions should be brought forward and the bureaucracy surrounding procurement should be simplified to allow more companies to participate.

The use and uptake of data and AI would be greatly simplified by creating open platforms where data could be shared by different actors and then used by others. In order to advance quickly, Sweden should cooperate with other EU countries and start from - and learn from - existing sharing platforms such as the X-Road in Finland and Estonia.

The Government needs to ensure that basic data in the public sector is made fully available, in accordance with the Open Data Directive.

Sweden should concentrate its work on supporting activities for the business community through innovation hubs and knowledge-sharing AI projects, e.g. AI of Sweden.